Debtors

12. The municipality has a long outstanding value added tax receivable of R5 894 533 from South African Revenue Services. We are of the opinion that the recoverability of this amount is uncertain as it is an accumulative amount from the 2003 to 2008 financial year.

    Consequently, debtors is overstated and provision for doubtful debt is understated.

Unauthorised expenditure

13. The municipality has overspent its allocated reserves and funds by R1 470 416. This over expenditure is deemed to be unauthorised. Furthermore this over expenditure has not been disclosed correctly in the annual financial statements as it is reflected as debit balances in the reserves and funds disclosure.

    Consequently expenditure is overstated and accumulated surplus is understated by R1 479 416.

Qualified opinion

14. In my opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had I been able to satisfy myself as to the matters described in the Basis for qualified opinion paragraphs, the financial statements of the Hlabisa Municipality as at 30 June 2008 and its financial performance and cash flows for the year then ended have been prepared, in all material respects, in accordance with the basis of accounting as set out in accounting policy note 1 to the financial statements and in the manner required by the MFMA and DORA.

Going concern

15. The municipality incurred a net loss of R4 682 901 for the year ended 30 June 2008 (2007:R6 673 918). Furthermore, the municipality's statutory funds are not adequately cash backed and the municipality is reliant on funding from equitable share to pay for it expenses in the normal course of operations. In addition, an analysis of its own income revealed that 42,5% of the municipality's income of R31,2 million is allocated to employee and consultant costs. As a result of the above the extent to which effective service delivery is achieved is questionable.

16. The statutory funds and reserves and trust funds balances of R21 783 903 are not backed by sufficient concomitant assets as required by the MFMA. The shortfall amounts to R13 306 734.

OTHER MATTERS

I draw attention to the following matters that relate to my responsibilities in the audit of the financial statements:

Matter of governance	Yes	No
Audit committee		
• The municipality had an audit committee in operation throughout the financial year.	✔	
• The audit committee operates in accordance with approved, written terms of reference.	✔	
• The audit committee substantially fulfilled its responsibilities for the year, as set out in Section 166(2) of the MFMA.	✔	
Internal audit		
• The municipality had an internal audit function in operation throughout the financial year.	✔	
• The internal audit function operates in terms of an approved internal audit plan.	✔	
• The internal audit function substantially fulfilled its responsibilities for the year, as set out in Section 165(2) of the MFMA.	✔	
Other matters of governance		
• The annual financial statements were submitted for audit as per the legislated deadlines in section 126 of the MFMA.	✔	
• The annual report was submitted to the auditor for consideration prior to the date of the auditor's report.		✔
• The financial statements submitted for audit were not subject to any material amendments resulting from the audit.		✔
• No significant difficulties were experienced during the audit concerning delays or the unavailability of expected information and/or the unavailability of senior management.	✔	
• The prior year's external audit recommendations have been substantially implemented.	✔	
Implementation of Standards of Generally Recognised Accounting Practice (GRAP)		
• The municipality submitted an implementation plan, detailing progress towards full compliance with GRAP, to the National Treasury and the relevant provincial treasury before 30 October 2007.	✔	
• The municipality substantially complied with the implementation plan it submitted to the National Treasury and the relevant provincial treasury before 30 October 2007, detailing its progress towards full compliance with GRAP.		✔
• The municipality submitted an implementation plan, detailing further progress towards full compliance with GRAP, to the National Treasury and the relevant provincial treasury before 31 March 2008.		✔

APPRECIATION

25. The assistance rendered by the staff of the Hlabisa municipality during the audit is sincerely appreciated.

Pietermaritzburg

28 November 2008

AUDITOR-GENERAL

TREASURER'S REPORT

2007/2008 YEAR REVIEW

Background

Hlabisa Municipality is a grade two Local Municipality within the Umkhanyakude District Municipality. It covers four traditional authority areas namely Hlabisa, Mpembeni, Mdletsheni and Mpurunyoni. The Municipality has been in existence for four and the half years and has 19 wards with 37 councilors. It is worth mentioning that the municipal area is mainly rural with three authorities, Municipality, Traditional Authority and DMA.

The municipality is currently clasified as low capacity municipality because of it reliance to the grant funding whilst it has large number of residents approximated at about 200 000. The unemployment rate is in access of 70% with large number of child-headed famailies. This municipality is also facing the challenge of HIV/Aids pandemic. The municipality has been largely involved in the development of it's communities through it interaction with all people and implementation of small-scale LED projects. The municipality is also facing the challenge of introducing new systems that will meet the existing and increasing demand for better accountability, reporting and good governance.

IDP and Budget Process Plans

IDP and Budget Process Plans were prepared and adopted by the council in a reasonable time. It is however acknowledged that proper implementation of the IDP and Budget are still a major challenge. Going forward it is anticipated that there will be an alignment of IDP and budget process plans within the municipality and the district at large but this demands collective efforts for all role-players.

Annual Financial Statements and Audit Reports

Annual Financial Statements (AFS) for year ending 30 June 2008 were prepared and submitted within the prescribed time frames and were also prepared internally and staff will be fully engaged in 2008/2009 monthly compilation of financial statements that will see Hlabisa Municipality complying with GAMAP/GRAP statements and timely submission of Annual financial Statements.

Summary Financial Review

Income received for this period amounted to R31,2 millions and expenditure was R33,1 million. We have a deficit of R1,940,712 as per our AFS. All MIG funds were spend duirng the year. The balance sheet herewith attached shows a decrease in net worth of municipality.

These financials represents the financial perfomance and operating results of the Hlabisa Municipality for the period ending 30 June 2008.

1. OPERATING RESULTS

Details of the operating results per department and classification of income and expenditure are included in appendices D and E. The overall operating results for the year ended 30 June 2008 are as follows:

INCOME	Actual 2008 R	Budget 2008 R	Variance Actual/ Budget %	Actual 2007 R
Operating income for the period	31 222 755	36 569 317	**-14.6%**	32 562 153
Closing deficit	-	-	-	-
	31 222 755	**36 569 317**		**32 562 153**
EXPENDITURE				
Expenditure for the period	33 163 467	36 371 809	**-8.8%**	38 851 710
	33 163 467	**36 371 809**		**38 851 710**

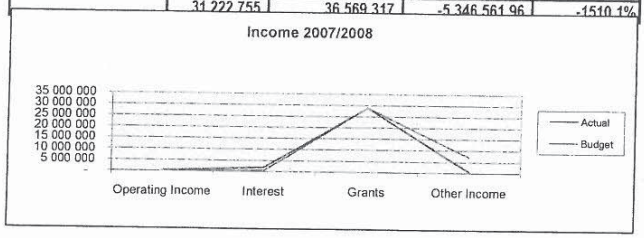
Operating expenditure is more than the income received. The municipality has received some grants in this financial period that were not utilized and the municipality transferred these grants to the trust funds and invested them.

Refer to page 27 (APPENDIX D)

2. INCOME

Details of income per department and classification are included in appendix D.

	Actual 2008	Budget 2008	2008 Variance Amount	2008 Variance %
Operating Income	221 230	378 362	-157 131.68	-71.0%
Interest	1 828 161	384 000	1 444 161.31	79.0%
Grants	28 739 157	28 782 000	-42 842.74	-0.1%
Other Income	434 206	7 024 955	-6 590 748.85	-1517.9%
	31 222 755	36 569 317	-5 346 561.96	-1510.1%



2.1 Grants and Subsidies

Equitable share is shown as operational grant and FMG Grant was received and remaining funds will be transferred to funds.

See Appendix A and D for more information

2.2 Operating Income

Actual 2008	Budget 2008
221 230	378 362

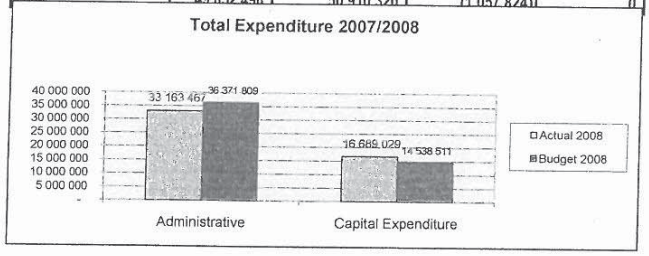
(Refer to Appendix D for more details

3. EXPENDITURE

3.1 Total Expenditure

Details of income department and classification are included in appendix D.

	Actual 2008	Budget 2008	2008 Variance Amount	2008 Variance %
Administrative	33 163 467	36 371 809	(3 208 342)	-9.67%
Capital Expenditure	16 689 029	14 538 511	2 150 518	14.79%
Total	49 852 496	50 910 320	(1 057 824)	0



The Capital expenditure increased as a result of increased MIG funding. Theres is also an additional funding from Sports and Recreation which was received as top up.

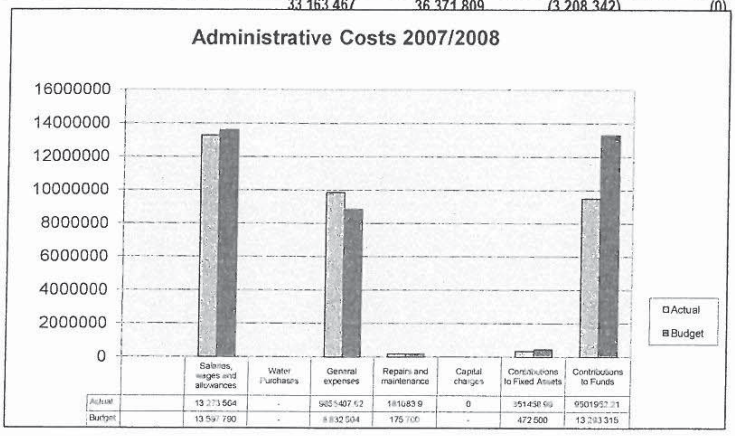
3.2 Administrative Expenditure

Administrative expenditure for the period are as follows:

	Actual 2008	Budget 2008	Variance 2008	Variance % 2008
Administrative	33 163 467	36 371 809	-3 208 342	-9.67%

Administrative expenditure as per classification are as follows:

	2008 Actual	2008 Budget	2008 Variance	2008 Variance %
Salaries, wages and allowances	13 273 564	13 597 790	(324 226)	-2.38%
Water Purchases	-	-	-	0.00%
General expenses	9855407.62	8 832 504	1 022 904	11.58%
Repairs and maintenance	181083.9	175 700	5 384	3.06%
Capital charges	0	-	-	0.00%
Contributions to Fixed Assets	351458.99	472 500	(121 041)	0.00%
Contributions to Funds	9501952.21	13 293 315	(3 791 363)	-28.52%
	33 163 467	36 371 809	(3 208 342)	(0)



4. CAPITAL EXPENDITURE (FIXED ASSETS)

The expenditure on fixed assets incurred during the year amounted to R 10,207,695 which consisted mainly of Civic Buildings, Vehicles Equipment.

Details are reflected in Appendix C

Resources used to finance the fixed assets were as follows:

Contributions from operating income	931 825
Grants & Subsidies	9 275 870
Donations - Dept of Housing	-
	10 207 695

Refer to 3.1 for comments on total expenditure.

5. EXTERNAL LOANS, INVESTMENTS AND CASH

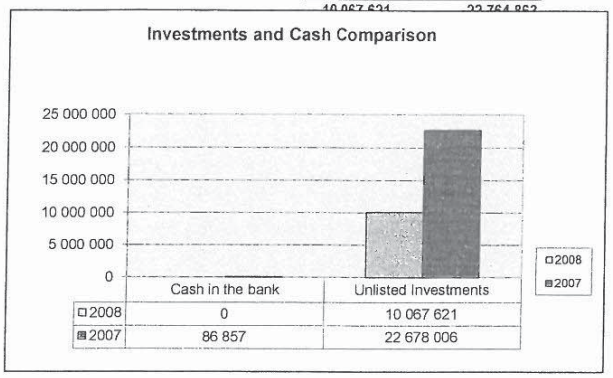
5.1 External loans

No external loans were taken up for the municipal functions during the period and none were transferred from Umkhanyakude District and Mtubatuba. Details of external loans are included in appendix A.

5.2 Investments and Cash

All available cash was held in Council's Bank account at 30 June 2008 amounting to (refer to notes 7 and 20 for more details):

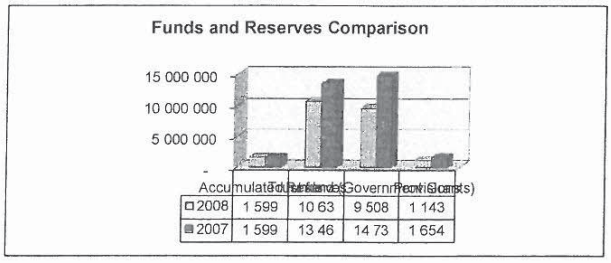
	2008	2007	Change %
Cash in the bank	0	86 857	-100%
Unlisted Investments	10 067 621	22 678 006	-56%
	10 067 621	22 764 863	



6. FUNDS AND RESERVES

Funds reserves and provisions may be summarized as follows:

	2008	2007	Change %
Accumulated funds	1 599 155	1 599 155	0%
Reserves	10 630 798	13 464 558	-27%
Trust fund (Government Grants)	9 508 950	14 736 528	-55%
Provisions	1 143 234	1 654 766	-45%
	22 882 137	**31 455 005**	



Full details on funds and reserves are included in notes 1, 2 and 3 to the financial statements and appendix A. Provision for bad debts is there to cater for debts over 90 days.

7. GOING CONCERN

The management of Hlabisa wants to see the municipality as a going concern although there are challenges because the municipality is still dependent on grants. But strategies have been developed to increase revenue base for the municipality.

8. POST BALANCE SHEET EVENTS

The municipality has employed a certain accounting firm that will be implementing the assets management systems that will ensure that the municipality fully implements the provisions of the Municipal Finance Management Act (MFMA).

EXPRESSION OF APPRECIATION

I wish to thank the Mayor, members of the Executive Committee, Councilors, the Municipal Manager, Heads of Departments and especially the staff in the financial department for the support they have given me during the financial year and in preparing these Annual Financial Statements.

B.M. Thusi
Chief Financial Officer
HLABISA LOCAL MUNICIPALITY
Date: 28/08/2008

HLABISA MUNICIPALITY

ACCOUNTING POLICIES

1 BASIS OF PRESENTATION

1.1 These financial statements have been prepared so as to conform to the standards laid down by the Institute of Municipal Finance Officers in its Code of Accounting Practice (1997) and Report on Published Annual Financial Statements (Second edition - January 1996).

1.2 The financial statements are prepared on the historical cost basis, adjusted for fixed assets as more fully detailed in Accounting Policy note 3.

1.3 The financial statements are prepared on the accrual basis as stated:

(i) Income is accrued when available to finance operations. Certain direct income is accrued when received and /or when the amount can be measured with certainty.

(ii) Expenditure is accrued in the year it is incurred.

1.4 All amounts disclosed in these Financial Statements are rounded off to the nearest Rand, but actual amounts were used in the calculations.

2 CONSOLIDATION

The financial statements include rates and general services, equitable share, trading services and the different funds and reserves. All inter departmental charges are set-off against each other.

3 FIXED ASSETS

3.1 *Fixed assets are stated:*
(i) at historical cost, or
(ii) at valuation (based on the market price at date of acquisition), where assets have been acquired by grant or donation, while they are in existence and fit for use, except in the case of bulk assets which are written off at the end of their estimated life as determined by the Chief Financial Officer.

3.2 *Depreciation*
The balance shown against the heading "Loans Redeemed and Other Capital Receipts" in the notes to the balance sheet is tantamount to a provision for depreciation, however, certain structural differences do exist. By way of this "Provision" assets are written down over their estimated useful life. Apart from advances from the various council funds, assets may also be acquired through:

(i) Appropriations from income, where the full cost of the asset forms an immediate and direct charge against the operating income, and therefore it is unnecessary to make any further provision for depreciation.

(ii) Grant or donation, where the amount representing the value of such grant or donation is immediately credited to the "Loans Redeemed and Other capital Receipts" account.

3.3 All net proceeds from the sale of fixed property are credited to the Puplic Improvement Fund. Net proceeds from the sale of all assets are credited to a CDF.

3.4 Fixed assets are financed from different sources, including external grants, operating income and internal advances. These loans and advances are repaid within the estimated lives of the assets acquired from such loans or advances. Interest is charged to the service concerned at the ruling interest rate applicable at the time that the advance is made.

4 INVENTORY

Inventory is purchased on a need basis, and the balance on hand at year end is accounted for as expenditure.

5 FUNDS AND RESERVES

5.1 *Capital Development Fund*

The Local Government Ordinance, Natal, No. 25 of 1974, requires a minimum contribution of 3.0% of the defined income of local authority for the immediately preceding financial year.

5.2 Public Improvement Fund

The Public Improvement Fund provides for the future township development. All developments costs as defined in section 103 (3) (d) of the Local Governement Ordinance, Natal, No. 25 of 1974, are debited against the fund. All proceeds from sale of developed land are credited as income for the fund.

5.3 Leave Provision

A provision equal to the actual leave credit as at 30 June is maintained to provide for leave payments on request. Contributions are made from the operating account.

5.4 Bad Debt Provision

A provision equal to the anticipated risk as at 30 June is a maintained to provide for bad debts. Contributions are made from the applicable accumulated account based on outstanding debtors more than ninety days.

5.5 Working Reserves
Some funds are reserved for the unexpected variation of working capital.

6 RETIREMENT BENEFITS

Hlabisa Municipality and its employees contribute to the Natal Joint Municipal Pension Fund or the KwaZulu-Natal Joint Municipal Provident Fund which provides retirement benefits to such employees. The retirement benefit plan is subject to the rules and regulations prescribed by the Local Government Superannuation Ordinance, 1973 (Ordinance No. 24 of 1973) and in accordance with the requirements of the Pensions Fund Act, 1956. Current contributions are charged against operating income on the basis of current service costs.

Full actuarial valuations are performed at least every three years. The last valuation was done on 31 March 2005.

7 LEASED ASSETS

Leases are treated as operating leases and the relevant rentals are charged to the operating account in a systematic manner related to the period of use of the assets concerned.

8 INVESTMENTS

Investments are shown at the lower of cost or market value if a permanent decline in the value occurred, and are invested in securities as prescribed by section 125 of the Local Authorities Ordinance, 1974 (Ordinance No. 25 of 1974) and section 10G(9) of the Local Government Transition Act, 1993 (Act No. 209 of 1993).

9 INCOME RECOGNITION

9.1 Assessment Rates

Assessment Rates are levied on land and improvement value of property at a differential rate. Rebates are granted according to the use to which a particular property is put to.

10 SURPLUSES AND DEFICITS

The Unappropriated Surplus is maintained as an Operating cash reserve, to fund expenditure during the financial year, prior to the collection of revenue.
It may also be utilized to fund projects that the council may deem necessary to fund.

HLABISA MUNICIPALITY

BALANCE SHEET AS AT 30 JUNE 2008

	Notes	2008 R	2007 R
CAPITAL EMPLOYED			
FUNDS AND RESERVES		12 229 953	15 063 713
Accumulated Funds	1	1 599 155	1 599 155
Reserves	2	10 630 798	13 464 558
ACCUMULATED DEFICIT	15	-9 365 117	-4 682 217
		2 864 836	10 381 496
TRUST FUNDS	3	9 508 950	15 010 527
LONG-TERM LIABILITIES			
Deposits	4	3 059	-
		12 376 845	25 392 023
EMPLOYMENT OF CAPITAL			
FIXED ASSETS	5	-	-
LONG TERM DEBTORS	6	14 200	14 200
INVESTMENTS	7	10 067 621	22 678 006
		10 081 821	22 692 206
NET CURRENT ASSETS / (LIABILITIES)		2 295 025	2 699 817
CURRENT ASSETS		6 544 848	7 176 476
Inventory		-	-
Debtors	8	6 544 848	7 089 619
Cash resources	20	-	86 857
Short-term portion of long term debtors	8	-	-
CURRENT LIABILITIES		4 249 823	4 476 659
Provisions	9	482 497	738 852
Trade Creditors	10	1 655 923	3 076 798
Other Creditors	10	562 808	661 009
Short-term portion of long term creditors	3	-	-
Bank Overdraft	20	1 548 595	-
		12 376 845	25 392 023

-0